

**The Case Processing - Examination Support
Processing Function Is Timely Performing
Many of Its Responsibilities**

September 2001

Reference Number: 2001-30-154

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

INSPECTOR GENERAL
for TAX
ADMINISTRATION

September 10, 2001

MEMORANDUM FOR COMMISSIONER, SMALL BUSINESS/SELF-EMPLOYED
DIVISION

Scott E. Wilson

FROM: (for) Pamela J. Gardiner
Deputy Inspector General for Audit

SUBJECT: Final Audit Report - The Case Processing - Examination Support
Processing Function Is Timely Performing Many of Its
Responsibilities

This report presents the results of our review of the Case Processing - Examination Support Processing (ESP) function. The overall objective of the review was to determine whether the Case Processing - ESP function was meeting its goals of timely and effectively closing Examination function cases.

Many controls and procedures designed to ensure timely closings in the Case Processing - ESP function were effective. The function timely and effectively closed simple agreed (less than \$10,000 or not requiring expedited processing), surveyed, and unagreed cases and timely forwarded cases to the Appeals function when appropriate. Procedures and controls were adequate to protect tax returns and access to information on the Audit Information Management System and Examination Returns Control System (ERCS) databases. Further, physical security over tax returns and tax return information was generally adequate. Management needs to continue emphasizing timely processing actions because the Examination function plans to examine a larger number of returns in future years. This should result in increased workload for the Case Processing - ESP function.

On the other hand, improvement is needed in processing large dollar agreed cases within the required time frame so that the cases are timely closed to prevent the Government from losing money. We reviewed 93 closed large dollar agreed cases (\$10,000 or more requiring expedited processing) and determined that 27 were not

processed within the required 22 calendar days from the date the agreement was signed. Twelve of these 27 cases were not closed within 30 days, which is when the Government starts losing interest if there is a tax deficiency. The time it took to close these 12 cases ranged from 31 to 121 days, with an average of 52 days.

In addition, more consistent procedures should be established as the reorganization of the Case Processing - ESP function is finalized. The four offices that we visited used different procedures for several support activities. Differences occurred in using ERCS status codes, assigning cases to employees, and surveying returns. As a result, management information over cases is not comparable, hindering the ability of top-level managers in the two centralized offices to effectively monitor and evaluate workloads in local offices.

We recommended that the Small Business/Self-Employed (SB/SE) Division's Deputy Director, Compliance Services, reinforce and reemphasize the procedures for screening, identifying, and tracking large dollar agreed cases to timely process them. In addition, the Support Vision Migration Team should address the procedural consistency issues during its evaluation of the Case Processing - ESP function's processes to ensure more uniformity and better management information.

Management's Response: The SB/SE Division's management agreed with the recommendations included in the report and are planning to take corrective actions. Management's comments have been incorporated into the report where appropriate, and the full text of their comments is included as an appendix.

Copies of this report are also being sent to the Internal Revenue Service managers who are affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Gordon C. Milbourn III, Assistant Inspector General for Audit (Small Business and Corporate Programs), at (202) 622-3837.

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Background

The Small Business/Self-Employed (SB/SE) Division of the Internal Revenue Service (IRS) serves approximately 40 million taxpayers, including fully or partially self-employed individuals and small business owners with assets of \$5 million or less. The Compliance function of the SB/SE Division is responsible for examining tax returns and collecting taxes owed by those taxpayers. The Compliance support function performs critical services for Examination and Collection function groups, such as closing and recording case closures on IRS computer systems. When Examination function groups complete their examinations of tax returns, the Case Processing - Examination Support Processing (ESP) function is responsible for processing the closed cases. These responsibilities include:

- Updating the status of the case to “closed” on the Examination function database called the Audit Information Management System (AIMS).¹
- Inputting the tax penalty, interest, and assessment amounts into the IRS computer systems.
- Mailing closing letters to taxpayers.
- Sending the cases to be filed at records centers.

Other functions may interact with the Case Processing - ESP function or be involved in closing cases. For example, the Quality Measurement Staff (QMS) reviews certain closed cases to determine whether the correct tax liability was assessed and provides technical assistance. After completing its review, the QMS forwards the case to the Case Processing - ESP function for closure. Also, in one field office we reviewed, examined cases can be closed in the group without sending them to the Case Processing - ESP function, in order to expedite processing.

The Case Processing - ESP function was implemented as part of the IRS’ reorganization in Calendar Year (CY) 2000, which established the SB/SE Division. Management of the function was centralized into two offices as field offices

¹ The AIMS is a computer system designed to give the Examination function information about returns in inventory and those that are closed.

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were merged. As part of the continuing reorganization plans, the Support Vision Migration Team is currently planning how the Case Processing - ESP function will create the envisioned support organization. Essential characteristics of the envisioned support organization are “uniformity,” where each support office performs the same set of processes nationwide, and “efficiency,” where each support organization is not constrained by area office boundaries.

The overall objective of the review was to determine whether the Case Processing - ESP function was meeting its goals of timely and effectively closing Examination function cases. We conducted the audit from February to May 2001 in the Denver, North Florida, Phoenix, and South Florida field offices. The audit was conducted in accordance with *Government Auditing Standards*. Details of our audit objective, scope, and methodology are presented in Appendix I. Major contributors to the report are listed in Appendix II.

Many Procedures and Controls Designed to Ensure Timely Case Closings Were Effective

The Case Processing - ESP function is responsible for timely closing or processing cases from Examination function groups. These include agreed cases (i.e., the taxpayer agrees with the proposed tax deficiency or over-assessment²), surveyed (non-examined) cases, and unagreed cases (i.e., the taxpayer did not agree with the proposed tax deficiency). Generally, Case Processing - ESP function management considered cases overage if they were not closed within 30 days of receipt. Certain agreed cases of \$10,000 or more require expedited processing; however, agreed cases referred to in this section of the report are those that do not require such expedited processing. They are generally cases where the tax deficiency or over-assessment is less than \$10,000 and are referred to as “simple” agreed cases.

When taxpayers request reconsideration of the tax assessment proposal, the Case Processing - ESP function

² At the conclusion of a tax examination, the IRS determines whether the taxpayer whose return was examined owes additional tax (deficiency) or has overpaid tax (over-assessment).

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should forward those cases to the Appeals function within 10 days. In addition, Case Processing - ESP function management should ensure proper security and control over tax returns and return information.

Overall, the Case Processing - ESP function was timely and effectively assigning and closing “simple” agreed, surveyed, and unagreed cases. We reviewed judgmental samples of various types of case closures for cases in the Case Processing - ESP function’s inventory between December 2000 and April 2001. Specifically, we evaluated:

- The timeliness of case assignments to Case Processing - ESP function tax examiners for 127 cases.
- The timeliness of case closings for 1,768 unagreed cases, 123 “simple” agreed or no-change cases, and 45 surveyed cases.

In addition, the Case Processing - ESP function was forwarding cases timely to the Appeals function, if required. We evaluated the timeliness of 110 cases forwarded to the Appeals function between December 2000 and March 2001.

We also reviewed the computer usage reports and tested security in the field offices visited. Procedures and controls were adequate to protect tax returns and access to information on the AIMS and Examination Returns Control System (ERCS)³ databases. Finally, physical security over tax returns and tax return information was generally adequate. We addressed any minor concerns with local Case Processing - ESP function management.

Current case processing activity for the above types of cases was timely; however, management needs to continue emphasizing timely processing actions because the Examination function plans to examine a larger number of returns in future years. This should result in increased workload for the Case Processing - ESP function.

³ The ERCS is the local offices’ automated inventory system to control cases by employee assignment number.

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Improvement Is Needed In Timely Closing Large Dollar Agreed Cases

Large dollar agreed cases are those agreed cases where the unpaid additional tax deficiency or over-assessment is \$10,000 or more. The IRS guidelines require that large dollar agreed cases be closed within 22 calendar days of receiving the taxpayer's signed agreement. Not only is it important that taxpayers receive notification of taxes due promptly, but the Government starts to lose interest if the additional tax is not assessed within 30 days. This is because interest does not accumulate from the 30th day to the date of the assessment.

Furthermore, in the situations where an over-assessment occurs, the Government pays more interest the longer it takes to input the adjustment and close the case. Large dollar agreed cases have the most effect on lost interest because of the amount of money involved. Therefore, they should have the most priority of cases being worked.

Improvement is needed in processing large dollar agreed cases within the required time frame so that the cases are closed timely to prevent the Government from losing money. We reviewed 93 large dollar agreed cases that were closed between December 2000 and April 2001. We identified these cases from the forms used to control them or the ERCS and determined that 27 were not processed within the required 22 calendar days from the date the agreement was signed. Twelve of these 27 cases were not closed within 30 days, which is when the Government starts losing interest if there is a tax deficiency. The time it took to close these 12 cases ranged from 31 to 121 days, with an average of 52 days.

Four of the 12 cases had total tax deficiencies of \$228,217, and 8 cases had total over-assessments of \$4,665,517. The estimated amount of interest lost on the cases with tax deficiencies was \$1,113 and the estimated amount of additional interest paid on the over-assessments was \$63,064. The interest was calculated based on the number of days after 30 days for both the tax deficiency and the over-assessment cases (see Appendix IV).

Although the lost interest or additional payments of interest on the over-assessments for these 12 cases is not very large,

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the potential exists for it to be larger if delays continue or other offices have similar delays.

Our review showed that the delays in the 27 cases occurred in each of the processing activities:

- The Case Processing – ESP function: 9 cases.
- Both the Case Processing - ESP function and the Examination function group: 3 cases.
- The Examination function group: 13 cases.
- The QMS: 2 cases.

To help management determine the specific reasons for delays, tax examiners and other employees involved in closing cases are required to explain in the remarks section of the forms used to control these cases why they were delayed. Six of the 12 cases had explanations; for example, one case was delayed in the QMS, and in two instances employees were in training.

However, for the remaining 6 cases not processed within 30 days, the employees involved in closing the cases did not record the reasons for the delay. Case Processing - ESP management stated that some employees were not aware of the procedure and others did not receive training until after several months on the job.

Further, in two offices, tax examiners performing the preliminary screening of cases received in the Case Processing - ESP function did not always identify large dollar agreed cases. Therefore, these cases were not identified as needing expedited processing.

Recommendation

1. The SB/SE Division's Deputy Director, Compliance Services, needs to reinforce and reemphasize the procedures for screening, identifying, and tracking large dollar agreed cases to timely process them.

Management's Response: The SB/SE Division's management will continue with operational reviews to ensure timely processing of large dollar agreed deficiencies and continue to review the issue at staff meetings.

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More Consistent Procedures Should Be Established as the Reorganization Is Finalized

The IRS Vision and Strategy for Tax Administration⁴ states that all the IRS compliance processes, including Examination, Collection, and Appeals, should be appropriately integrated to speed case resolution and reduce the burden on the taxpayer. The Case Processing - ESP function, as the Examination function support operation that closes the cases, has an impact on how quickly cases are closed.

The Case Processing - ESP function was established during the CY 2000 IRS reorganization, and the Support Vision Migration Team is currently evaluating all the processes in order to create a uniform and efficient organization. “Uniformity” refers to each office of a support function performing the same set of processes nationwide. This should improve the effectiveness of monitoring the program, especially considering that top management has been centralized, as previously mentioned.

Among the four offices visited, we identified some inconsistent or non-uniform procedures as follows:

Use of ERCS status codes

When assigning and controlling work, each office used different ERCS status codes to control similar work or sometimes used the same ERCS status code for different types of work. For example, ERCS status code 53 was used for three different processes in the four offices. Two offices used it for the date cases were received in the Case Processing - ESP function, another office used it for cases needing to go to the Appeals function, and the last office used it for certain Statutory Notice of Delinquency letters.⁵ For more details on differences, see Appendix V.

⁴ The IRS Vision and Strategy for Tax Administration, dated October 2000, creates a long-term vision of tax administration processes around customer requirements and builds a plan that provides for prioritization of projects.

⁵ A Statutory Notice of Delinquency (or 90-Day Letter) is the IRS Commissioner’s determination of a taxpayer’s tax deficiency sent to the taxpayer by certified or registered mail.

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In addition, some offices used the ERCS status codes while others used the employee number and program codes to manage inventory assignments.

Assignment practices

Assignment practices varied among offices. In two offices, employees prescreened and categorized work as it was received, and subsequently, managers assigned the cases to other employees for the closures. One of these offices used a very detailed, locally-developed form to control and categorize the work by program number.

In another office, an employee also prescreened and categorized work. However, subsequently, as other employees were available to close the cases, they assigned work to themselves without management involvement. In these offices, cases were assigned at all stages to the employee number of the person working the case.

In the fourth office, as cases were received, they were held by a manager and assigned to that manager's number until an employee could screen them.

Surveys

A case is surveyed when the Examination function group managers decide that the return should not be examined because of excessive workload or the return has limited examination potential. A case can be surveyed before or after assignment to the employee. In one office, the Examination function group did the survey, while in another office it was done in Planning and Special Programs.⁶ In the third office, the Case Processing - ESP function did the survey, and in the last office, both the Examination function group and the Case Processing - ESP function did the survey. In addition, some offices

⁶ Planning and Special Programs is the function within the Examination function that plans and monitors the inventory of tax returns for examination.

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required the QMS to review these surveyed cases and others did not.

The main reason for these inconsistencies is that, prior to the IRS reorganization, each support office was separate and responsible only to local Examination function management. Examination function management had flexibility to control work in whatever way they thought best in their own offices. These procedures met IRS guidelines; however, the Case Processing - ESP function has now become more centralized and these varying practices do not correspond with the SB/SE Division's vision for more consistency and uniformity.

When processes are not consistent, management information about cases, accomplishments, and overall workload is not comparable. Consequently, the ability of top-level managers in the two centralized offices to effectively monitor and evaluate workloads in local offices is hindered.

Recommendation

2. The Support Vision Migration Team should address these procedural consistency issues during its evaluation of the Case Processing - ESP function's processes to ensure more uniformity and better management information. Best practices from offices should be considered (e.g., one office we reviewed used a locally-developed form to control all work by program numbers).

Management's Response: The SB/SE Division's management established a team in Case Processing to address the use of ERCS status codes and assignment practices and instructed Case Processing Support managers to ensure that management personnel assign cases. In addition, the Support Vision Migration Team identified the survey process as a function of Case Processing - ESP and will be working with the migration team to ensure consistency in case processing procedures.

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Appendix I

Detailed Objective, Scope, and Methodology

Our overall objective was to determine whether the Case Processing - Examination Support Processing (ESP) function was meeting its goals of timely and effectively closing Examination function cases. To accomplish this objective, we conducted audit tests in the Denver, North Florida, Phoenix, and South Florida field offices between February and May 2001. Our audit tests included reviewing cases in inventory between December 2000 and April 2001.

We used judgmental samples for our audit tests because we needed to review cases in process on the dates of our field office visits to test the timeliness of actions. We could not know the population until we were there. Also, for those audit tests where we could use an advance inventory listing, we could not be certain of the potential closing action until we were reviewing the case. Overall, there was no expeditious way to select statistical samples.

We conducted the following tests to accomplish the objective:

- I. Determined whether the Case Processing - ESP function was timely and effectively closing cases.
 - A. Reviewed the Internal Revenue Service's (IRS) guidelines and interviewed Case Processing - ESP function managers and employees for local guidance to identify responsibilities of the Case Processing - ESP function and general internal controls over processes.
 - B. Identified key statistics related to the volume of cases closed and processed through the Case Processing - ESP function for Fiscal Year 2000 through the use of the Audit Information Management System (AIMS) management reports and the Examination Returns Control System (ERCS).
 - C. Obtained case inventory lists from the four field offices visited. These included cases in transit from the Examination function groups, cases currently being worked in the Case Processing - ESP function, cases where a Statutory Notice of Deficiency (90-Day Letter)¹ had been issued, and cases that were recently closed. See audit tests I.D, I.E, I.F, and I.H related to the specific inventory listings that were used for each test.

¹ A Statutory Notice of Delinquency (or 90-Day Letter) is the IRS Commissioner's determination of a taxpayer's tax deficiency sent to the taxpayer by certified or registered mail.

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- D. Reviewed closed cases where the taxpayers did not agree with the additional tax deficiency (unagreed cases).
1. Identified the procedures and internal controls for working these unagreed cases by performing a walk-through of the process.
 2. Determined if the cases were worked timely and effectively. On the dates of our field visits, we obtained the ERCS listings of cases where a 90-Day Letter was issued. There were 1,768 such cases in the 4 field offices' inventories. Depending on the office reviewed, the dates of these listings were between February and April 2001.
 - a) Selected a judgmental sample of 30 cases in 3 offices for a total of 90 cases. We did not include the fourth office because there was no issue that needed further development. We determined whether cases were properly worked.
 - b) Analyzed the listing to determine whether any cases had been in this status beyond the 105- or 165-day required default time frame. Once the default date was reached, the case should have been purged so the tax assessment could be made.
 3. Determined whether a tickler-type control card file was maintained to protect the Government's interest for cases where the statute expiration date was imminent.
 4. Scanned the cases that were maintained in 90-Day Letter files and determined if any of them had been there longer than the 105- or 165-day criteria, as appropriate. This was to ensure we did not miss any cases that may not have been on inventory listings.
 5. As part of the sample case review in I.D.2.a), reviewed cases where the taxpayer did not come to the appointment with the IRS and/or the 90-Day Letter was "undeliverable," to determine if these were worked effectively and timely.
 - a) Identified the procedures and internal controls for working no-show/undeliverable letter cases.
 - b) Determined whether sufficient methods were used to try to locate the taxpayer by reviewing the documentation in the case file.

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- E. Reviewed the closed cases where the taxpayers agreed with the additional tax deficiency or over-assessment.² This review included all agreed cases regardless of the dollar amount. Those cases that were greater than \$10,000 and required expedited processing are referred to as “large dollar agreed” cases from this point forward.
1. Identified the procedures and internal controls for working all agreed cases by performing a walk-through of the process.
 2. Determined whether the tax assessments were timely and effectively made. We used ERCS listings to determine if agreed cases not meeting large dollar expedite criteria were timely worked and judgmentally selected 123 cases for review. Depending on the office reviewed, the dates of these listings were between December 2000 and March 2001. We used the ERCS or special forms used to control large dollar agreed cases between December 2000 and April 2001 for all 4 field offices to identify 93 large dollar agreed cases for review. In three offices, we used all the records of large dollar agreed cases available, and in one office, we judgmentally sampled cases.
 - a) For cases not meeting large dollar agreed case expedite criteria, determined whether the case was timely closed by calculating the time expended from the date it was in transit from the groups to the actual closing date.
 - b) For large dollar agreed cases, determined the time from the signed agreement waiver date until the assessment date. Compared this time frame to the criteria of 22 days for closing large dollar agreed cases and determined if the assessments were timely made.
 - c) For large dollar agreed cases, determined whether the Case Processing - ESP function closed them within the required 7 days after being received.
 - d) For any untimely processed large dollar agreed case, calculated the lost interest to the Government or additional interest paid. We requested assistance from the Case Processing - ESP function for this calculation. It used an IRS computer program that calculates interest.

² At the conclusion of a tax examination, the IRS determines whether the taxpayer whose return was examined owes additional tax (deficiency) or has overpaid tax (over-assessment).

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3. Determined whether payments were received and processed in the Case Processing - ESP function.
 4. Reviewed files to verify that the Case Processing - ESP function followed up on the processing for deficiencies of \$100,000 or greater that was performed by the Examination function groups.
- F. Reviewed cases closed from the Examination function groups as surveyed (non-examined) cases.
1. Identified the procedures and internal controls for working surveyed cases by performing a walk-through of the process as well as interviewing management at all four field offices. These included cases that the Examination function groups surveyed either before or after assignment.
 2. Analyzed the ERCS listing of surveyed cases for timely processing. We reviewed all 45 cases in process on the dates of our review in 2 offices. Depending on the office reviewed, the dates of these listings were between February and March 2001. The other two field offices were not included because they did not close surveyed cases in the Case Processing - ESP function. In those two field offices, these cases were closed by the groups.
 - a) Determined whether they were properly approved.
 - b) Determined whether they were timely processed.
- G. Reviewed cases forwarded to the Appeals function.
1. Identified the procedures and internal controls for working cases sent to the Appeals function.
 2. Identified cases forwarded to the Appeals function between December 2000 and March 2001 and judgmentally selected 110 cases to review. We did not obtain a population due to the way the transmittals were maintained. We determined whether the Case Processing - ESP function forwarded the case files to the Appeals function within the required 10 calendar days after a taxpayer's request was received in the Case Processing - ESP function.
- H. Reviewed the time it took to assign cases and determined whether any took longer than the 3-day criteria for the Case Processing - ESP function to update the status. We judgmentally selected 127 of 361 cases for review from the ERCS

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inventory listings. Depending on the office reviewed, the dates of these listings were between December 2000 and February 2001.

- II. Determined whether the security and controls over tax returns in the Case Processing - ESP function were effective.
 - A. Reviewed the ERCS and AIMS databases' security.
 - 1. Reviewed the security profiles for the Case Processing - ESP function personnel.
 - 2. Interviewed the ERCS and AIMS coordinators at all four field offices.
 - 3. Determined procedures for adding and deleting users to the AIMS and ERCS databases.
 - 4. Determined who had access to update the ERCS and AIMS and whether they were properly authorized.
 - 5. Determined if there were any audits trails on the system that tracked the tax examiners' actions and reviewed them for any unusual accesses.
 - B. Evaluated the physical security controls in the Case Processing - ESP function.
 - 1. Determined if physical access to the function was limited.
 - 2. Observed the entrances and work areas.
 - C. Evaluated, reviewed, and observed the controls over access to the tax returns.
 - 1. Interviewed Case Processing - ESP function managers and discussed controls over returns. We determined how cases flowed through the function and how returns were controlled.
 - 2. Determined who had access to unassigned inventory in the Case Processing - ESP function.
 - 3. Determined how cases were assigned to the tax examiners.
 - 4. Determined how cases in-process were protected.
 - 5. Determined whether operational reviews were performed and identified any problems.

Major Contributors to This Report

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Appendix III

Report Distribution List

Commissioner N:C
Deputy Commissioner, Small Business/Self-Employed Division S
Director, Compliance, Small Business/Self-Employed Division S:C
Deputy Director, Compliance Services, Small Business/Self-Employed Division S:C:CS
Director, Communications, Small Business/Self-Employed Division S:COM
Director, Internal External Stakeholders, Small Business/Self-Employed, Compliance Policy
S:C:CP:I
Small Business/Self-Employed Case Processing Territory Manager, East S:C:CS:CP:E
Small Business/Self-Employed Case Processing Territory Manager, West S:C:CS:CP:W
Director, Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis N:ADC:R:O
Chief Counsel CC
National Taxpayer Advocate TA
Office of Management Controls N:CFO:F:M
Audit Liaison:
Commissioner, Small Business/Self-Employed Division S

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Appendix IV

Outcome Measures

This appendix presents detailed information on the measurable impact that our recommended corrective actions will have on tax administration. These benefits will be incorporated into our Semiannual Report to the Congress.

Type and Value of Outcome Measure:

- Increased Revenue - Potential; \$1,113 related to 4 cases (see page 4).
- Funds Put to Better Use - Potential; \$63,064 (see page 4).

Methodology Used to Measure the Reported Benefit:

We reviewed 93 closed large dollar agreed cases in 4 offices. We determined that there were 12 large dollar agreed cases that were not processed within 30 days. After 30 days, the Government loses interest until the date of the tax assessment. Interest would have been paid by the taxpayer on the tax assessment if it was timely made for the period between the 30th day and the date of assessment. If there was an over-assessment, the Government pays additional interest to the taxpayer. We considered 30 days to be overage for the over-assessment cases, to be consistent with the additional tax deficiency cases requirements. We calculated the number of days over 30 days and considered that the time period for additional interest paid by the Government.

We requested the Case Processing - ESP function's assistance in calculating the interest, and it performed the calculation for us using an Internal Revenue Service computer program. Using the amount of each case's tax deficiency, it calculated the interest based on a compounded interest rate effective at the time the return was filed and used the number of days over 30 days. Four of the 12 cases had total tax deficiencies of \$228,217. The estimated amount of interest lost on these cases was \$1,113. The other 8 cases had total over-assessments of \$4,665,517. The estimated amount of additional interest paid on these cases was \$63,064, which are funds that could have been put to better use.

Our sample was judgmental for each of the four field offices visited. Therefore, we cannot project any results and can only show outcomes for the specific cases reviewed.

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Appendix V

Use of Examination Returns Control System Status Codes

Status Codes	Office One	Office Two	Office Three	Office Four
51	Case in transit to ESP	Same	Same	Same
52	Special Processing Unit	Special Processing Unit	Special Processing Unit	Not used
53	Case updated to ESP received date	Appeals	Unagreed 90-Day Letter FA	Case updated to ESP received date
54	Suspended Cases	Preliminary work	Not used	Not used
55	Adjustment Unit	Adjustment Unit	Unagreed 90-Day Letter OA	Not used
56	Regular typing	Not used	Not used	Temporary use for cases going to another office
57	Surveyed	Same	Same	Same

Legend: FA = Field Audit; OA = Office Audit; ESP = Examination Support Processing

Source: ADP and IDRS Information Document 6209 (Rev. 1-2000) and the Case Processing - Examination Support Processing function local procedures.

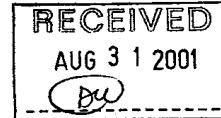
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Appendix VI

Management's Response to the Draft Report



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224



AUG 29 2001

MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM:

For Joseph Kehoe
Commissioner, Small Business/Self-Employed

TO:

Draft Letter Report – Case Processing – Examination
Support Processing Function is Timely Performing Many
of Its Responsibilities (200130015)

I appreciate the opportunity to review and comment on the subject draft audit report. I agree with your overall findings that the Examination Support Processing Function is timely performing many of its responsibilities.

We are already addressing locally some of the findings. For example, our second level operational reviews identified the need to reinforce and reemphasize the procedures for screening, identifying and tracking large dollar agreed cases to process them timely. We also discussed this issue during recent staff meetings with the Case Processing Support Managers.

We previously identified the areas of inconsistencies cited in this audit as one of the issues to address after the Restructuring Status Quo process. The Case Processing Peer Review Team also identified this as an area of concern.

Our comments on the recommendations in this report are as follows:

IDENTITY OF RECOMMENDATION 1: The SB/SE Division's Deputy Director, Compliance Services, needs to reinforce and reemphasize the procedures for screening, identifying, and tracking large dollar agreed cases to timely process them.

ASSESSMENT OF CAUSE: Improvement is needed in processing large dollar agreed cases within the required time frame so that the cases are closed timely to prevent the Government from losing money.

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CORRECTIVE ACTION: Management will continue with operational reviews to ensure the timely processing of large dollar agreed deficiencies. We will continue to review the issue at staff meetings.

IMPLEMENTATION DATE: By 9/30/02, we will decrease the time required to process large dollar agreed deficiencies.

RESPONSIBLE OFFICIALS: Deputy Director, Compliance Services, SB/SE

CORRECTIVE ACTION MONITORING PLAN: The appropriate staff will advise the Deputy Director, Compliance Services of any delay, change, or problem with the implementation.

IDENTITY OF RECOMMENDATION 2: The Support Vision Migration Team should address these procedural consistency issues during its evaluation of the Case Processing – ESP function's processes to ensure more uniformity and better management information. Best practices from offices should be considered (e.g., one office we reviewed used a locally-developed form to control all work by program numbers).

ASSESSMENT OF CAUSE: The reason for inconsistencies in the Case Processing – ESP function in the use of ERCS status codes, assignment practices, and surveying cases is that prior to the IRS reorganization, each support office was separate and responsible only to local Examination function management. The former procedures met IRS guidelines; however, the Case Processing – ESP function has now become more centralized and these varying practices do not correspond with the SB/SE Division's vision for more consistency and uniformity.

CORRECTIVE ACTION: We recently established a team in Case Processing to address the use of ERCS status codes and assignment practices. We instructed all Case Processing Support Managers to ensure that management personnel complete the assignment of cases for the staff.

The Support Vision Migration Team identified the survey process as a function of Case Processing – ESP, rather than Exam groups or Planning and Special Procedures (PSP). The team will work closely with the migration team to ensure consistency in case processing procedures during Phase II of the migration efforts.

IMPLEMENTATION DATE: We should complete the migration of Case Processing – ESP function by 12/31/2004.

The Case Processing - Examination Support Processing Function Is Timely Performing Many of Its Responsibilities

RESPONSIBLE OFFICIAL: Deputy Director, Compliance Services, SB/SE

CORRECTIVE ACTION PLAN MONITORING: The appropriate staff will advise the Deputy Director, Compliance Services of any delay, change, or problem with the implementation.

Please call John Crawford, Deputy Director, Compliance Services, Small Business/Self-Employed, at (972) 308-7010 if you have any questions.